

Effect of Psychological Factors on Retirement Preparedness Among Employees in the Insurance Sector in Kenya

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Abstract

Various studies on retirement have focused on individual's demographic characteristics when examining retirement preparedness. Such research concludes that people with specific characteristic tend to prepare adequately for their future old-age life. However, while demographic features are a major consideration in retirement decision, there are other variables that may affect retirement planning behaviour that are unrelated to an individual's demographic composition. Behavioral-economics research suggests that there may be a number of psychological factors that influence the way an individual prepare for retirement. The present study therefore sought to examine how psychological factors influence retirement planning behaviour among employees in the insurance sector in Kenya. Using explanatory research design, the study employed stratified proportionate random sampling method to select the respondents. Data was collected using questionnaires and analysed by use of one way ANOVA and Pearson correlational analysis. Hypotheses were tested by use of both, multiple linear regression and multinomial logistic regression. From the results, using self-assessment to measure retirement preparedness, there was significant relationship between retirement planning behavior and psychological factors. However, insignificant result was found when retirement preparedness was measured using approximate amount of saving. The findings add to the developing literature on unearthing individual differences in retirement planning by providing an empirical focus on important psychological characteristics.

Keywords: Retirement, Psychological factor

1. Introduction

Retirement is defined as a process that entails actual end of one's working life with its beginning marked by preparation (Reitzes & Mutran, 2004). Evidence suggests that retirement preparation promotes better adjustment (Noone, Stephens & Alpass, 2009) and help promote retirement confidence (Kim, Kwon, & Anderson, 2005). Although some studies present optimistic view of individuals' retirement preparation (Petkoska & Earl, 2009), others suggest that many people do not adequately prepare for retirement (Ekerdt et al., 2001). Ameriks et al., (2007) predict that half of all individuals' aged 25 to 71 years will not have sufficient savings to support themselves in retirement. This implies that it will be difficult for future retirees to remain independent in their old age life. Therefore, in an effort to understand the reasons why individuals are not adequately saving for their retirement, researchers have focused their attention on exploring factors that underlie individuals' motive to plan and save for retirement.

Most of the literature on retirement planning focuses on the influence of demographic characteristics. These studies have shown positive associations between age, income, gender, education level and marital status to retirement planning and saving practices (Bernheim & Garrett, 2003; Smith, Lusardi & Mitchell 2011; Agnew 2006a; Huberman, Iyengar & Jiang, 2007). Findings from these studies have shown that being older, being male, being more educated and earning a higher income are related to greater retirement preparedness (Jacobs-Lawson et al., 2004). Individuals with these demographic characteristics are thought to engage in greater retirement preparation due to opportunity structures (Ekerdt, DeViney, & Kosloski, 1996). Similarly, studies on personality have equally revealed that certain traits are positively related to planning and saving (Griffin, Loe, & Hesketh, 2012; Hershey, Jacobs-Lawson, McArdle, and Hamagami, 2007). However, frequently disregarded are psychological influences on retirement planning and saving. Hershey (2004) argues that although demographic factors have an influence on retirement planning decisions, their effect is mediated through psychological influences that have a direct effect on savings decisions. Equally, despite these numerous assessments of individual differences on demographic basis, there is still considerable variation in preparedness for retirement across the globe.

It's based on the above considerations that a compelling case was made for research that examines the influence of psychological variables on individual tendency to prepare and save for retirement. This study therefore provide insights on whether psychological factors accounts for variation in retirement preparedness among pre-retirees as those studies that have addressed this topic, have either focused on post-employment period or measured retirement planning solely within the financial domain.

Moving forward, this paper is organized as follows; section 2 reviews the current literature on psychological factors and retirement preparedness, the third section discusses the research methodology that was adopted, fourth section provides the results and discussion and finally, the fifth and sixth sections give conclusions and recommendations that emanate from the findings.

2.0 Literature Review

2.1 Retirement Preparedness

Retirement preparedness is considered an ongoing process of setting aside resources and time so as to provide income at old age with the goal of not just survival but also social inclusion and preservation of human dignity (Keizi, 2006). It requires an individual to analyse current financial situation; identify future financial need, compute the gap and fill by creating asset allocation plan through saving that will generate regular income upon retirement. This process therefore if well planned and carefully executed ensures lots of financial security, peace of mind, relaxation and gain of sense of control over the future (Kapoor, Dlabay, & Hughes, 1994).

Several studies have suggested different ways to measure preparation for retirement including; proximity (Atchley, 1976; Stawski et al. 2007), pre-retirement involvement scales (Evans et al., 1985), knowledge of retirement issues (Glamser, 1976; 1981), retirement fund calculation and retirement savings (Helman & Paladino, 2004). Using income replacement rate, Yuh, Montalto, and Hanna (1998) described retirement preparedness as the ability to maintain the pre-retirement level of consumption with retirement resources measured with the income replacement rate. The ratio indicates whether retirees can maintain a reasonable approximation of their pre-retirement consumption level.

Mutran, Reitzes and Fernandez (1997) also measured retirement preparedness by use of questions addressing several topics such as discussing retirement with others; reading about retirement; attending a pre-retirement program, lecture, or seminar; and calculating retirement expenses and income. Lusardi and Mitchell (2009) on the other hand indicate that retirement planning can easily be measured by asking how much respondents have thought about retirement. Equally, Van Rooij et al (2011) relate the amount of thought one has given to retirement to actual and planned saving behaviour and conclude that people who spent more time thinking about retirement are also more likely to plan for future savings.

2.2 Psychological Factors

Psychological factors according to Hershey et al., (2010) are beliefs regarding the ability of an individual to successfully make the retirement transition. It involves the application of psychological principles such as future time perspective, retirement attitude, emotional stability, retirement goal clarity, and overconfidence that affects financial decision-making, in order to improve the process. It is thus essential to plan beyond the numbers in order to successfully transit into retirement.

As such, favorable retirement attitude and expectations have been found to be positively related to retirement behaviors and beliefs (Jacobs-Lawson and Hershey, 2005). Similarly, goals have been shown to stimulate planning behaviors in a variety of domains (Lee, Locke, Latham, & Pervin, 1989). Retirement goals facilitate concrete analysis of one's late-life financial needs, thus necessitating engagement in appropriate planning activities. Mowen and Jacobs-Lawson (2003) reported that people who engaged in goal-setting exercises showed greater planning and saving practices than people who did not. Neukam and Hershey (2003) also showed that financial goal strength was positively related to retirement savings contributions.

Research has also shown that individuals with future time perspective are concerned with working toward future goals and rewards thus have the tendency to plan and save for future events including retirement (Jacobs-Lawson and Hershey, 2005). In contrast, people with present time perspective live in the moment with little consideration of the future consequences of their actions hence inhibit planning. Hershey, Henkens and VanDalen (2010) add that future time perspective is a psychological dimension that pertains to the extent to which individuals focus on the future, rather than on the present or the past. The present study uses retirement attitude, goal clarity and future time perspective as predictors of psychological factors

2.3 Relationship between Psychological Factors and Preparedness for Retirement

Limited research has chosen to look beyond demographic characteristics and focus on the complexities of human behaviour. This involves the psychological forces that predispose individuals to act in ways that triggers retirement planning and saving behaviors. As a result, if individuals feel they are well prepared, then the likelihood to be confident about retirement and subsequently positive outlook towards retirement (Glaser & Weber, 2007). This implies that directly understanding behaviour leads to a better understanding of individual choice and decision unlike demographics which simply provides a coarse characterization of such behaviour. Therefore, some of the studies on the impact of several psychological aspects on retirement have been investigated and mixed finding established

Hershey et al (2010) explored the psychological mechanisms that underlie the retirement planning and saving tendencies amongst Dutch and American workers of 25 to 64 years of age. Using culture-specific path analysis models, the findings revealed striking differences across countries predictive of key psychological and retirement planning constructs. The authors thus asserted that organizations that consider workers psychological predispositions when having pension reforms tend to stress on individual responsibility for retirement planning and saving.

Hershey, Jacobs-Lawson, McArdle and Hamagami (2008) investigated psychological foundations of financial planning for retirement by developing a model of planning to test psychological indicators of future time perspective, retirement goal clarity, and self-rated financial knowledge that mediate the relationship between demographic indicators and saving behaviors. Using path-analysis techniques to test the model based on data from 265 middle-aged working adults, results revealed significant support for the role of psychological factors in the retirement planning process.

Heraty and McCarthy (2015) explored psychological predictors of retirement planning behavior among late career older workers. Drawing on a sample of 1,946 older workers aged between 50 and 65 years from the first wave of the Irish Longitudinal Study on Ageing, they investigate whether self-perceptions of aging and awareness of aging influence financial planning for retirement and the results demonstrate that, even when controlling for age, gender, employment contract, and sector, self-perceptions of aging significantly predict the likelihood of financial planning behavior among older workers. Specifically, they found that older workers with more positive beliefs about their ability to control aspects of aging are more likely to financially plan for retirement while those who have an intermittent, rather than a constant, awareness of the aging process are less likely to make such financial provisions.

Stawski, Hershey and Jacobs-Lawson (2007) also investigated among 100 working adults the role of psychological factors on retirement with emphasis on the extent to which goal clarity and future time perspective predict retirement savings practices. Savings contributions were predicted by use of path analysis techniques and the results revealed that retirement goal clarity is a significant predictor of planning practices, and thus helps predict savings tendencies. Similarly Yakoboski (2011) studied the attitude of people who were about to retire and how they plan their retirement. Basing on data drawn from employees who were working in Colleges and Universities and aged between 50 and 70, the results revealed that attitude played an essential role in retirement planning.

3. Methodology

This study adopted positivism as its research philosophy. The choice of positivism for this study is justified on the basis that the study set up the hypothesis on the basis of the existing relevant literature and theories. The study adopted the explanatory research design to explain the relationship between the independent variable (psychological factors) and dependent variable (retirement preparedness).

3.1 Population and Sampling Design

The study population comprised of employees in the insurance companies in Kenya. The Insurance Regulatory Authority (IRA) provided a list of all 51 licensed insurance firms which reported an estimated 830 permanent and pensionable employees. Proportionate stratified random sampling was used to select a sample of 270 for the study. First, the population was categorized into three strata based on their line of business. Since each stratum differed vastly in numbers, proportionate sampling was then used to apportion participants so as to ensure each stratum had the same sampling fraction. The participating members were then randomly selected at the data collection stage with a condition to include at least employees in all management level.

3.2 Measurement of Variables

To determine participants' psychological behaviour towards retirement preparation; retirement attitude, goal clarity and future time perspective was measured using a five-point scale ranging from 1 (strongly disagree) to 5 (strongly agree). Items contained in the scale either reflect the act of thinking about, discussing, setting goals for the future, particularly in relation to retirement quality of life or individuals' opinion toward the retirement. The categorization of the respondents was on the basis of their total score. Retirement preparedness was measured using two dimensions namely; approximate amount of retirement savings and through self-assessment. By use of amount of savings, individuals were required to indicate their approximate amount of saving from category ranging from less than Ksh. 500,000 to over one million. Through self-assessment, retirement preparedness was measured using the Financial Preparedness for Retirement Scale (FPRS) presented in Ross, D. & Wills, L (2009). This scale factors in various dimensions of retirement preparation behaviors and questions including activities undertaken by individuals to prepare for retirement such as whether they discussed retirement issues with someone, thought about retirement, attended any retirement seminars, collected necessary information, considered period they will retire, thought about how long they may live in retirement and how much money they will need upon retirement.

3.3 Data collection

The study relied on primary data which was obtained by use of a structured questionnaire that had three sections. The first section sought demographic information of the participants, the second section sought to determine participants' psychological behaviour through goal clarity, future time perspective and retirement attitude and the

third section sought information on preparedness for retirement.

3.4 Validity and Reliability of the Measuring Instruments

Evidence show that psychological factors scale used by Stawski et al. (2007) and Financial Preparedness for Retirement Scale (FPRS) presented in Ross, D. & Wills, L (2009) which form the basis of the items used in this study have test/retest reliability of .87 and .92 respectively. In addition, content validity of the questionnaires was also guaranteed by including items that test individual's psychological and planning attributes as supported by literature. Face validity of the measuring instrument was ensured by consulting experts who assisted with the questionnaire design.

3.5 Ethical Considerations

To ensure that moral standards were considered in all stages of the research, permission to conduct the study was sought and license granted by National Commission for Science, Technology and Innovation- NACOSTI in Kenya. Similarly, participants were approached and full disclosure of purpose of the study explained.

3.6 Data Analysis

To determine participants' psychological behaviour towards retirement preparedness, respondents rated how well each of the statements described them using a five-point scale ranging from 1 (strongly disagree) to 5 (strongly agree) and the total score for each respondent obtained. Equally, for retirement preparedness, FPRS score for each individual was determined by translating answers to each question into a score and the highest score awarded to answers that were consistent with behaviors that demonstrated the highest level of preparation while lowest score awarded to answers that demonstrated the lowest level of preparation. One way ANOVA was then used to test whether the means difference between scores of psychological behaviour and retirement preparedness differed significantly whereas correlation analysis was used to test the relationship of the dependent and the independent variable. Further, since the probability of the dependent variable was predicted in two dimensions, two regression analyses were conducted to test the hypothesized relationship. In the first dimension, retirement preparedness was predicted using self-assessment making the choice of multiple linear regression model appropriate. In the second option, the dependent variable was predicted using respondent approximate amount of saving making utilization of multinomial logistic regression model as appropriate. To further test for the effect of the moderating variable, the study estimated two regression models (unmoderated and moderated) for each dimension. Similarly, to ensure assumptions of classical linear regression model were not violated, diagnostic tests including multicollinearity, heteroscedasticity and normality were conducted.

4. Findings and Discussion

4.1 Demographic Composition of the Sample

Table 1 shows that most of the respondents were male (56.7%), were aged between 31 and 40 years (45.5%), had bachelor's degree (54.6%), were largely married (48.1%), were in the middle management level (47.4%), and have worked for 6 to 10 years (44.4%).

4.2 Psychological Factors and Retirement Preparedness

Using self-assessment dimension, findings for unmoderated and moderated model, shows that the coefficients for psychological factors as 0.259 and 0.500 with p-values of 0.000 and 0.001 respectively. The p-values for both models are less than 0.05 as presented in table 1. However, using approximate amount of saving dimension, results showed that the coefficient for psychological factors was 0.704, 1.059 and 6.683 for the three saving categories as presented in table 2. Similarly, Pearson's correlation coefficient between psychological factors and retirement preparedness using self-assessment dimension was 0.568 with a p-value of 0.000 as shown in Table 3 but when using approximate amount of saving dimension, the coefficient was 0.194 with a p-value of 0.054 as shown in Table 4. Finally, findings of the mean difference of psychological factors and retirement preparedness using self-assessment dimension gave an F test of 16.564 with a p-value of 0.000 as shown in Table 5 and F test of 1.756 with a p-value of 0.165 using approximate amount of saving dimension. Above findings indicate that, psychological factor has significant effect on retirement preparedness when using self-assessment dimension but no significant effect in predicting retirement preparedness when using approximate amount of saving dimension.

Findings that psychological variables significantly promote retirement preparedness are in agreement with various previous studies such as that of Hershey et al., (2010) who examined the psychological characteristics that motivate retirement planning and saving propensities among Dutch and American workforces and found prominent differences across the countries between operational variables prognostic of main psychological and retirement planning measures. Similarly, present finding confirms those of Stawski, Hershey and Jacobs-Lawson (2007) who investigated the role of psychological factors on retirement with emphasis on the extent to which goal clarity and future time perspective predict retirement savings practices and results revealed that retirement

goal clarity among other psychological factors, is a significant predictor of planning practices, and thus helps predict savings tendencies. Finally, current finding fits with those of Heraty and McCarthy (2015) who explored psychological predictors of retirement planning behavior among late career older workers and found that older workers with more positive beliefs about their ability to control aspects of aging are more likely to financially plan for retirement.

On moderating effect, finding of gender on retirement preparedness using self-assessment dimension was significant ($p = 0.007$) but insignificant while using approximate amount of savings dimension ($p = 0.052$). This finding implies that gender has a moderating influence on retirement preparedness when the dimension of self-assessment is used but not when using approximate amount of savings dimension.

5. Conclusion

Although planning for retirement still remains an option of personal choice, it's still an essential process for an individual to ensure future security. Present study results reveal that over and above the effect of demographic variables, retirement attitudes, goal clarity, and future time perspective as proxy of psychological factors have a significant influence on the extent to which employees engage in retirement preparation. The study acknowledges that as much as employees in insurance firms automatically contribute to both mandatory social security fund and employer pension fund for their retirement funding, it requires a conscious realization of individual's attitudinal and behavioral attributes to predict how people prepare for retirement. Therefore, while several studies show that demographic characteristics are significant factors in predicting retirement decision, present study provides additional insight into what underlies individuals' retirement planning. This result therefore accounts for significant percentage of the explained variance in individual retirement preparedness.

6. Limitations of the Study

This study has its limitations. First, besides the finding capturing retirement preparedness at a particular point in time and not over a period of time, it's restricted to insurance sector thus may not be representative of the overall Kenyan population. In addition, being a behavioral study, choosing significant factors for making an appropriate framework considering time and content was a challenge, the psychological factors were limited to attitude, goal clarity and time perspective.

7. Recommendations

The findings of this study can be beneficial to policy makers in a variety of ways. First and foremost, it recommends that when introducing measures that incentivize private savings, there's need to give considerable attention on individual's attitude and behaviour toward saving. It highlights the need for policy makers to incorporate psychological variables during their efforts to educate people about the virtues of planning and saving for the future. Moreover, the study recommends future research efforts to include more psychological factors and apply mixed-research methods; integrating both quantitative and qualitative techniques so as to provide further insight thereby achieving more accurate and comprehensive results. Finally, a replication of this research in future, using samples from other sector of the economy could equally be a great attempt to confirm the robust conclusion of the findings.

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Table 1: Demographic composition of the sample

Demographic variable		Percentage
Gender	Male	56.7
	Female	43.3
Age	18-30	41
	31-40	45.5
	41-50	11.9
	51-60	1.6
Marital status	Single	47.3
	Married	48.1
	Separated/divorced	3.8
	Widowed	0.8
Education	High school	6.8
	College	15.9
	Graduate (Bachelors)	54.6
	Post Graduate	22.7
Management Level	Top	45.8
	Middle	47.4
	Lower	6.8
Work Experience	0-5	27.8
	6 to 10	44.4
	11 to 15	17.3
	16 to 20	6.8
	over 20	3.7

Table 2: Coefficients for Effect of Psychological Factors on Retirement Preparedness using self-assessment dimension

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Constant	.296	.327		.905	.368
	Psychological Factors	.259	.047	.578	5.549	.000
2	Constant	-.174	.840		-.207	.837
	Psychological Factors	.500	.140	1.115	3.580	.001

Table 3: Coefficients for Effect of Psychological Factors on Retirement Preparedness using approximate amount of savings dimension

Approximate saving		B	Std. Error	Wald	df	Sig.	Exp(B)
100,001-500,000	Intercept	-1.975	5.082	.151	1	.698	
	Psychological Factors	-.352	.651	.291	1	.589	.704
500,001-1000,000	Intercept	-5.641	7.045	.641	1	.423	
	Psychological Factors	.058	.907	.004	1	.949	1.059
Over 1,000,000	Intercept	-30.178	19.170	2.478	1	.115	
	Psychological Factors	1.900	2.045	.863	1	.353	6.683

Table 4: Correlational between Psychological Factors and Retirement Preparedness using self-assessment dimension

		Retirement Preparedness
Psychological factors	Pearson Correlation	.568
	Sig. (2-tailed)	.000
	N	217

Table 5: Correlational between Psychological Factors and Retirement Preparedness using approximate amount of savings dimension

		Retirement Preparedness
Psychological factors	Pearson Correlation	.194
	Sig. (2-tailed)	.054
	N	217

Table 6: ANOVA for Psychological Factors using self-assessment dimension

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	46.703	86	.543	16.564	.000
Within Groups	.328	100	.033		
Total	47.030	186			

APPENDIX: NACOSTI PERMIT TO CONDUCT RESEARCH

